

Assessing payment adequacy and updating payments for physician services

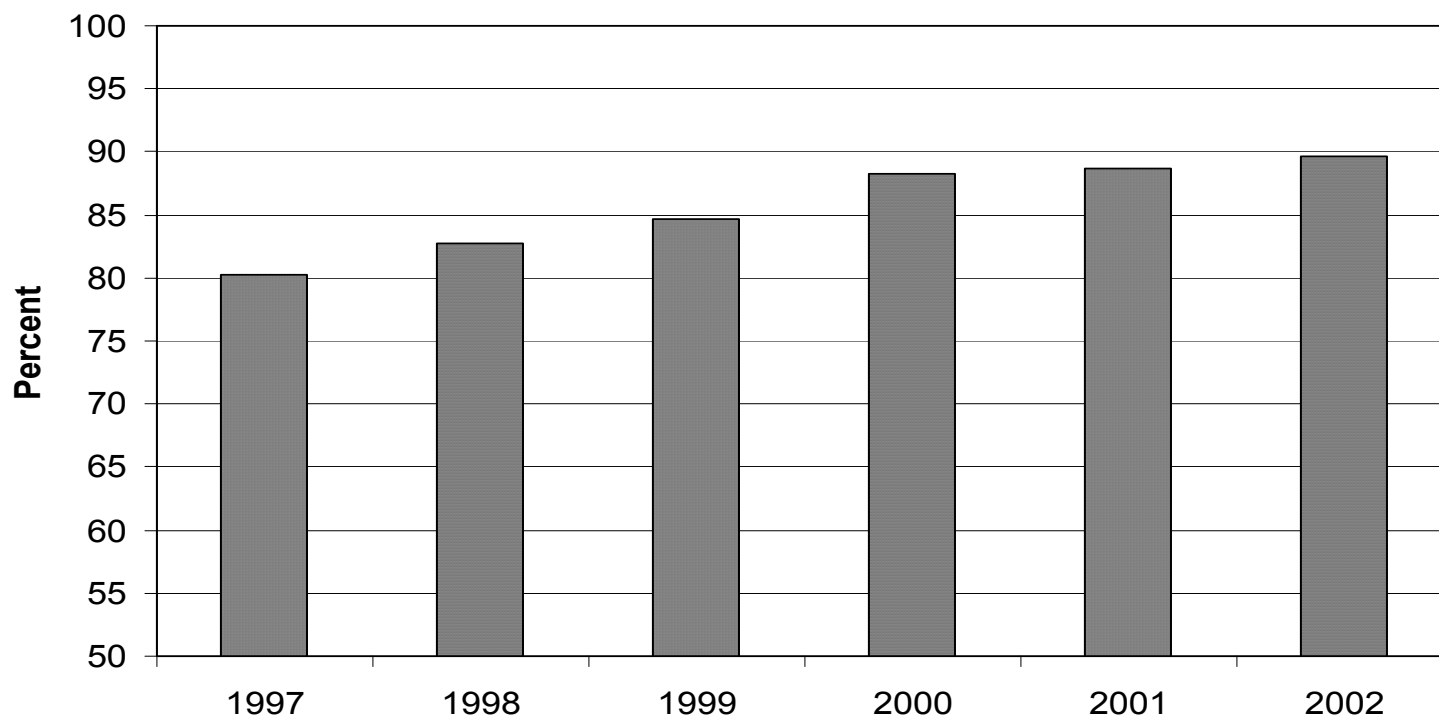
Kevin Hayes

January 15, 2003

Overview

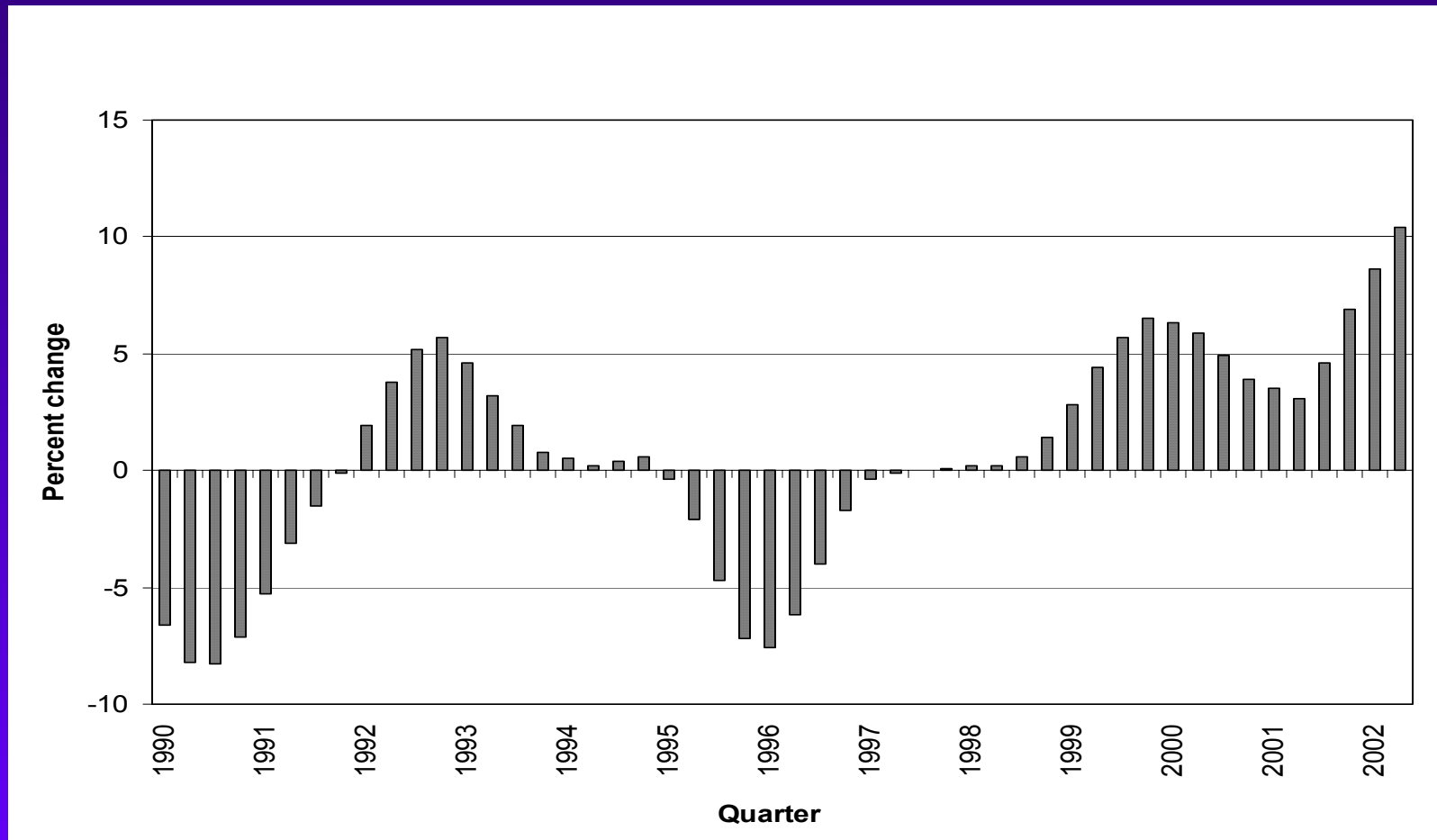
- Issues discussed at December meeting
 - physicians who have signed a participation agreement
 - Increases professional liability insurance premiums
- Update recommendation

Participation rates, 1997-2002



Source: Unpublished CMS data.

Professional liability insurance premiums, 1990-2002



Draft recommendation

- For 2004, the Congress should update payments for physician services by the projected change in input prices, less an adjustment for productivity growth currently estimated at 0.9 percent.
- Budget implication: would increase spending

Payment for professional liability insurance

	Payment		
	PLI		
	Total (\$)	(\$)	(%)
Office visit	\$50	\$1	2%
Removal of brain tumor	\$1,840	\$209	11%

Assessing payment adequacy and updating payments for outpatient dialysis services

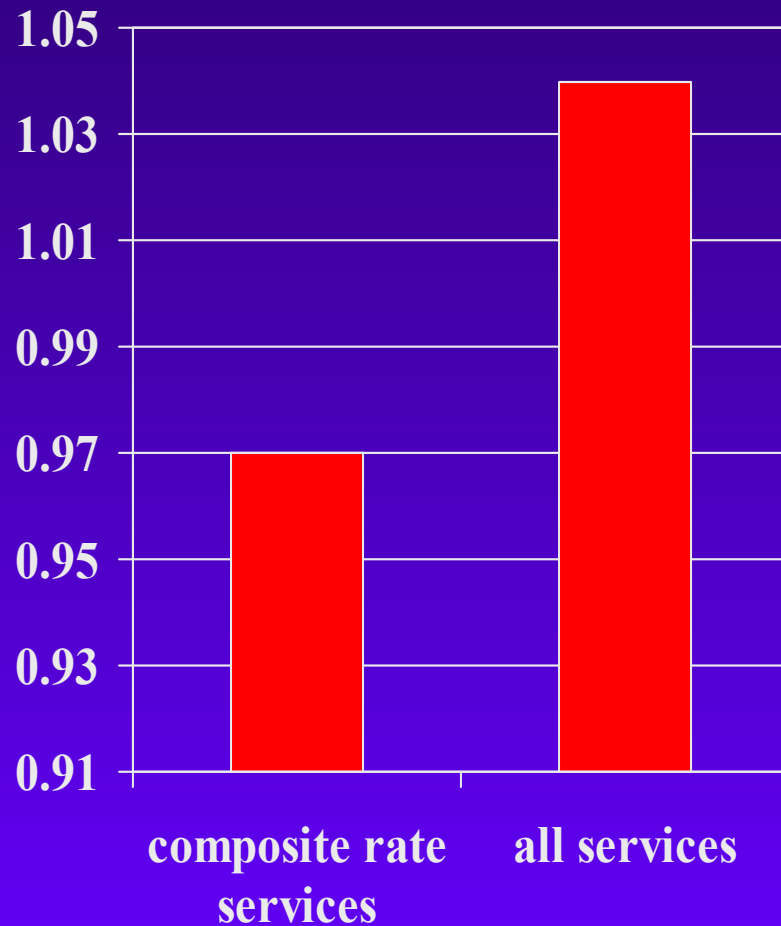
Nancy Ray

January 15, 2003

Medicare payments for outpatient dialysis services

- Outpatient dialysis
 - Prospective payment—the composite rate—for each dialysis treatment averaged \$130 in 2002
- Injectable drugs
 - Payment rate for erythropoietin is per unit and set by the Congress
 - Other covered drugs are paid 95% average wholesale price

Payment to cost ratio for 2001



- 1996 audited allowable costs are 96% of reported costs
- 2001 data are adjusted to reflect effect of audit

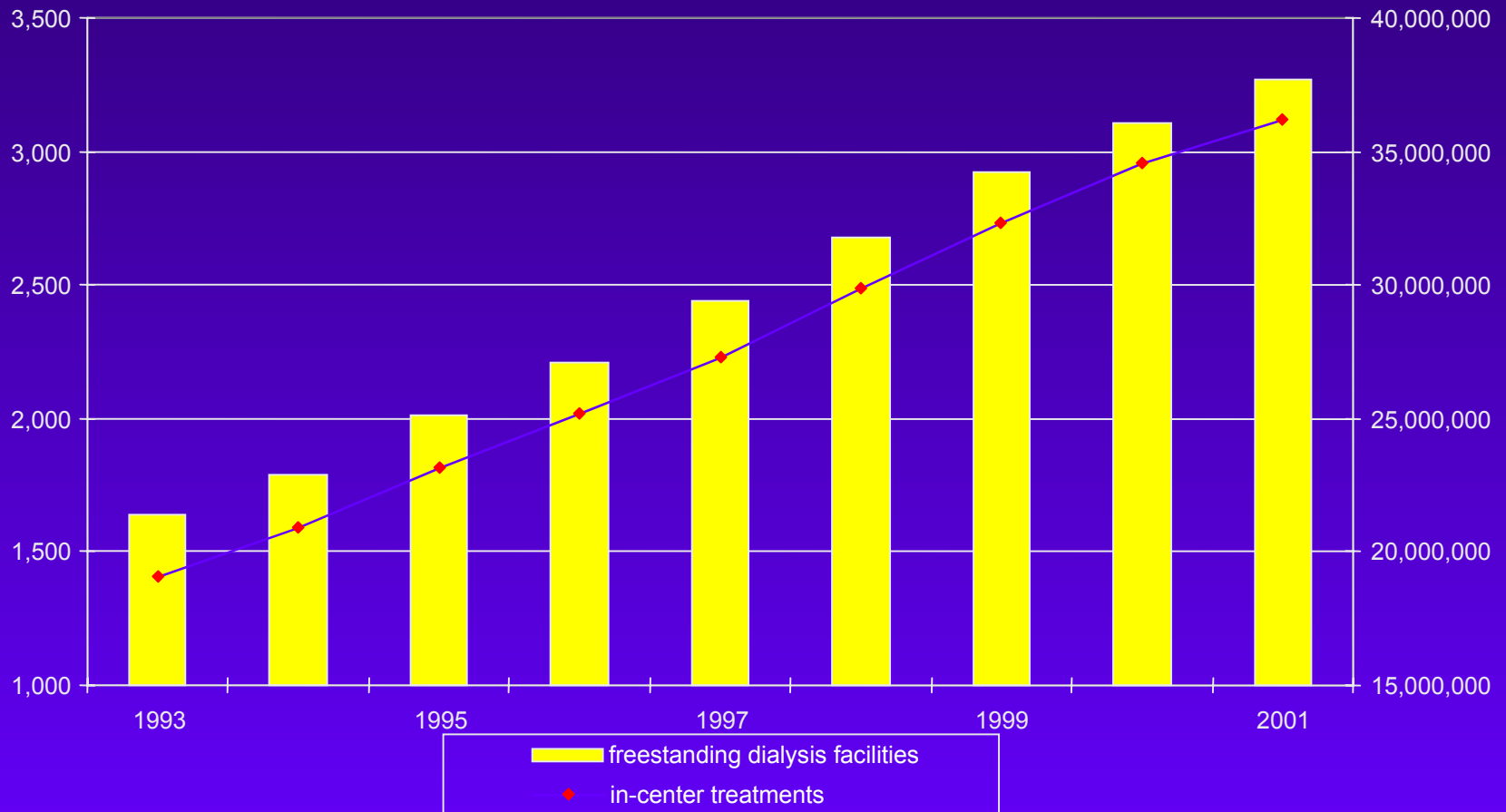
Estimate current payments and costs for 2003

- Use 2001 cost reports and claims submitted by freestanding dialysis providers
- Project costs for 2003 by assuming costs grow at the dialysis market basket index
- Model payments for 2003 to reflect current law, no change in composite rate for 2002-2003

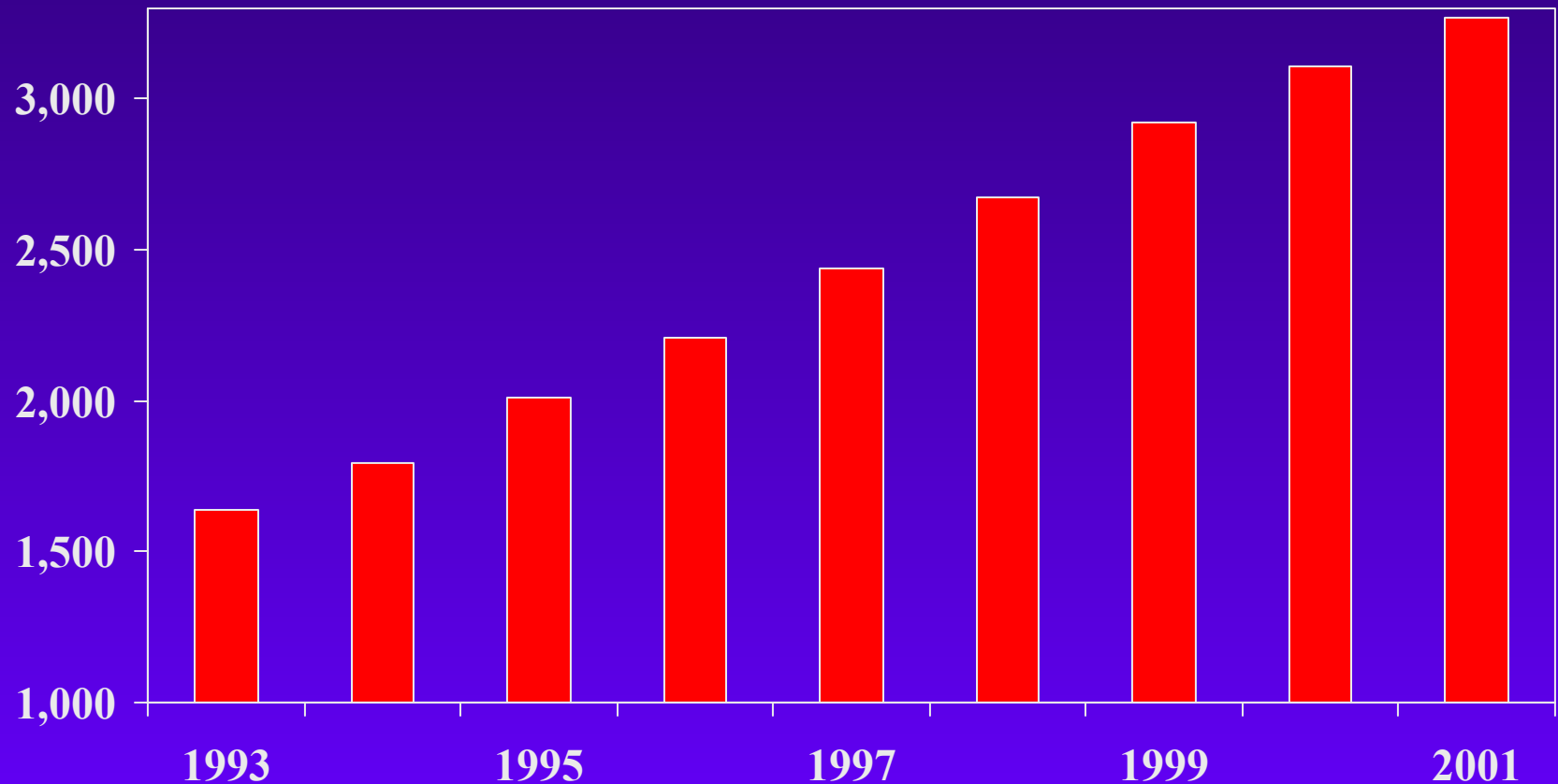
Market factors suggest payments are at least adequate

- Trends in per-unit costs
- Provider entry and exit
- Changes in the volume of services
- Access to care
- Quality of care
- Access to capital

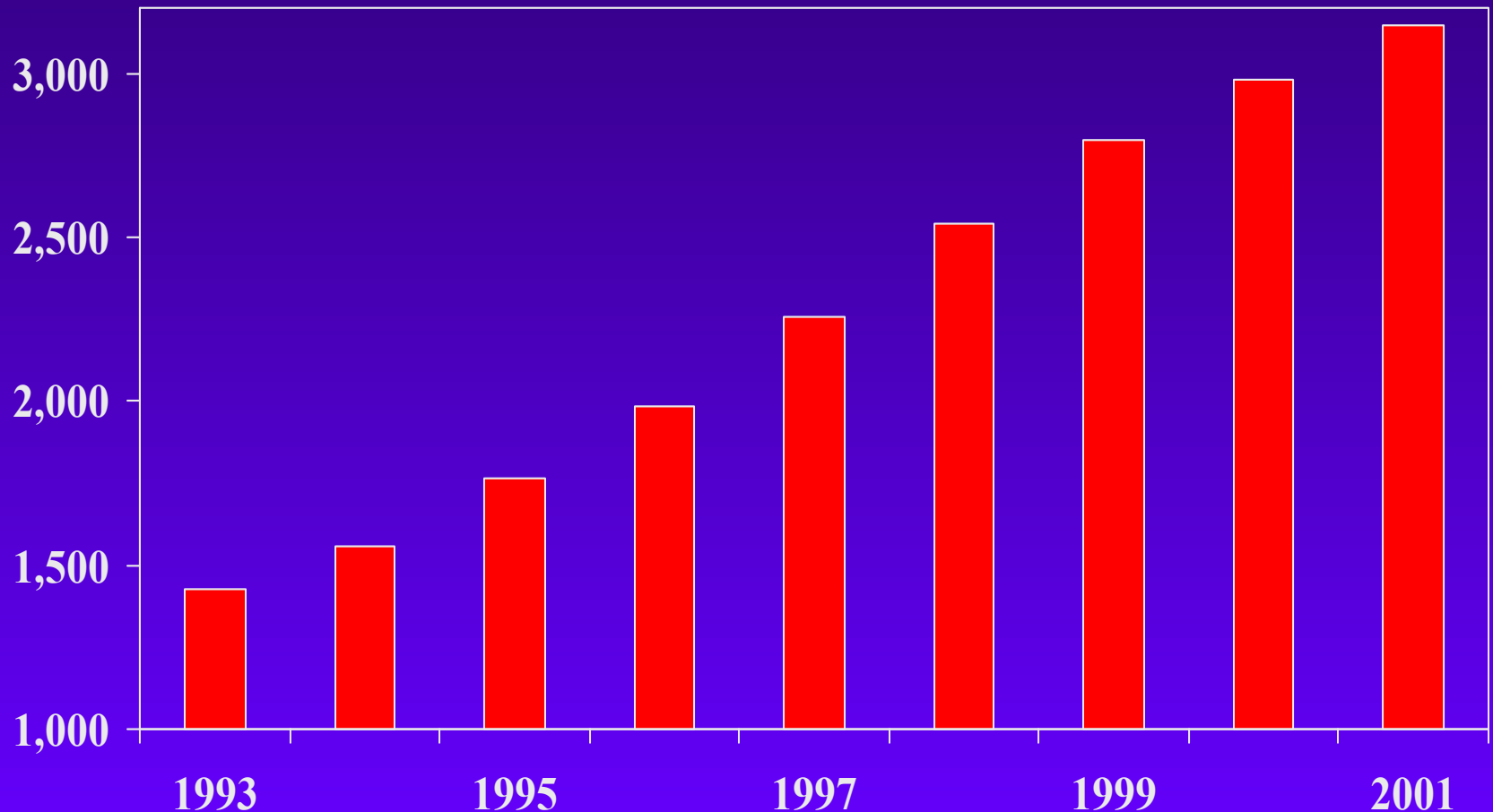
Growth in capacity to furnish dialysis, 1993-2001



Number of freestanding facilities is growing



Number of for profit facilities is growing



Projecting increases in providers' costs in the next payment year

- CMS's market basket index for outpatient dialysis services being reviewed within the agency
- MedPAC's market basket uses information from price indexes for PPS hospitals, SNFs, and home health agencies
- Project input prices will rise 2.5 percent between 2003 and 2004

Other factors affecting providers' costs in the next payment year

- Scientific and technological advances
 - Most medical advances will be accounted for through the payments for separately billable drugs
- Productivity improvements
 - Use 10-year moving average of multifactor productivity of 0.9 percent in the economy as a whole

Draft recommendation

- For calendar year 2004, the Congress should update the composite rate by the projected change in input prices, less 0.9 percent.
- Budget implication: would increase spending

Assessing payment adequacy and updating payments for ambulatory surgical center services

Ariel Winter

January 15, 2003

Draft recommendation 1

The Secretary should expedite the collection of recent ASC charge and cost data for the purpose of analyzing and revising the ASC payment system.

- Budget implication: no impact on benefits spending

Assessing payment adequacy: market factors

- Rapid growth in number of ASCs (50% increase from 1996-2001)
- Rapid growth in volume of procedures (60% increase from 1997-2001)
- Strong access to capital
- Payments appear more than adequate

Draft recommendation 2

The Congress should eliminate the update to payment rates for ambulatory surgical center services for fiscal year 2004.

- Budget implication: would decrease spending

2003 ASC and outpatient hospital rates for surgical procedures

Procedures with highest share of payments to ASCs	ASC rate	Outpatient hospital rate
Cataract removal/lens insertion	\$973	\$1,160
After cataract laser surgery	446	246
Colonoscopy, diagnostic	446	413
Upper GI endoscopy, biopsy	446	387
Colonoscopy with removal of lesion	446	413

Comparing mix of beneficiaries using ASCs and outpatient departments

- Compared average 1999 risk scores of FFS patients in each setting
 - Risk score based on hierarchical condition category model
 - Reflects expected service use given health status, compared to average beneficiary
 - Based on age, sex, and diagnoses from inpatient, outpatient, and physician settings

Average 1999 risk scores for patients in ASCs and outpatient departments

Procedure category	Average risk score for patients in	
	ASC	Outpatient department
Cataract removal/lens insertion	1.26	1.30
Colonoscopy	1.16	1.24
Other eye procedures	1.32	1.39
Upper GI endoscopy	1.34	1.48
Ambulatory procedures - other	1.35	1.43

Total payments for all services for patients in ASCs and outpatient departments, 1999

Procedure category	Average total payments for patients in	
	ASC	Outpatient department
Cataract removal/lens insertion	\$6,950	\$8,040
Colonoscopy	6,250	7,090
Other eye procedures	6,580	7,800
Upper GI endoscopy	8,670	10,780
Ambulatory procedures - other	8,490	11,030

Draft recommendation 3

Until the Secretary implements a revised ASC payment system, the Congress should ensure that payment rates for ASC procedures do not exceed hospital outpatient PPS rates for those procedures.

- Budget implication: would decrease spending

Estimated impact of recommendation 3

- Would lower rates for half of the volume of ASC services, accounting for 35% of Medicare payments
- For these procedures, average payment reduction would be 20%
- Overall, ASC payments would be reduced by 7%
- Would reduce beneficiary cost sharing

Estimated ASC payment reductions under recommendation 3, by procedure category

Procedure category	Percent reduction (2003)	Share of ASC payments (2001)
Cataract removal/lens insertion	0%	50%
Colonoscopy	8	13
Other eye procedures	29	10
Upper GI endoscopy	11	7
Minor procedures - musculoskeletal	19	5